

CITY OF ELKHART, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2020

CITY OF ELKHART, IOWA
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CITY OF ELKHART, IOWA
OFFICIALS
June 30, 2020

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January, 2020)		
Brandon Snyder	Mayor	January, 2020
Brian Shipley	Council Member	January, 2022
Steve Nolte	Council Member	January, 2020
Michael Just	Council Member	January, 2020
Kevin Smith	Council Member	January, 2020
Colten Fors	Council Member	January, 2022
Brenda Hysell	City Clerk	Appointed
Tom Henderson (Whitfield & Eddy)	City Attorney	Appointed
(After January, 2020)		
Colten Fors	Mayor	January, 2022
Brian Shipley	Council Member	January, 2022
Brad Fordyce	Council Member	January, 2024
Nathan Gillmore	Council Member	January, 2024
Steve Allen	Council Member	January, 2024
Dustin Teig	Council Member	January, 2024
Chad Sands (Appointed February, 2020)	City Administrator	Appointed
Brenda Hysell	City Clerk	Appointed
Tom Henderson (Whitfield & Eddy)	City Attorney	Appointed

Gronewold, Bell, Kyhnn & Co. P.C.

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Elkhart, Iowa, as of and for the year ended June 30, 2020, and the related notes to financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

To the Honorable Mayor and
Members of the City Council

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Elkhart, as of June 30, 2020, and the respective changes in its cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Elkhart's basic financial statements. The supplementary information included in Schedules 1 through 3, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions, on pages 23 through 27 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

To the Honorable Mayor and
Members of the City Council

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 22, 2021 on our consideration of the City of Elkhart's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering City of Elkhart's internal control over financial reporting and compliance.

James W. Bell, CPA

Atlantic, Iowa
June 22, 2021

CITY OF ELKHART, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION

As of and for the year ended June 30, 2020

		<u>Program Receipts</u>	
	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>
Functions/Programs:			
Governmental activities:			
Public safety	\$ 149,330	\$ 90,956	\$ 41,991
Public works	169,822	12,285	46,110
Health and social services	1,400	--	--
Culture and recreation	108,191	4,200	--
Community and economic development	40,247	--	--
General government	125,884	403	2,350
Debt service	331,057	--	--
Capital projects	523,077	--	--
Total governmental activities	<u>1,449,008</u>	<u>107,844</u>	<u>90,451</u>
Business type activities:			
Water	152,548	130,621	--
Sewer	170,739	167,805	--
Nonmajor	4,783	12,565	--
Total business type activities	<u>328,070</u>	<u>310,991</u>	<u>--</u>
Total	<u>\$ 1,777,078</u>	<u>\$ 418,835</u>	<u>\$ 90,451</u>
General Receipts:			
Property and other city tax levied for:			
General purposes			
Tax increment financing			
Local option sales tax			
Unrestricted interest on investments			
Debt proceeds			
Miscellaneous			
Total general receipts			
Change in cash basis net position			
Cash basis net position beginning of year			
Cash basis net position end of year			

(continued next page)

Program Receipts Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Governmental Activities	Business Type Activities	Total
\$ --	\$(16,383)	\$ --	\$(16,383)
--	(111,427)	--	(111,427)
--	(1,400)	--	(1,400)
--	(103,991)	--	(103,991)
--	(40,247)	--	(40,247)
--	(123,131)	--	(123,131)
--	(331,057)	--	(331,057)
<u>2,000</u>	<u>(521,077)</u>	<u>--</u>	<u>(521,077)</u>
<u>2,000</u>	<u>(1,248,713)</u>	<u>--</u>	<u>(1,248,713)</u>
--	--	(21,927)	(21,927)
--	--	(2,934)	(2,934)
<u>--</u>	<u>--</u>	<u>7,782</u>	<u>7,782</u>
<u>--</u>	<u>--</u>	<u>(17,079)</u>	<u>(17,079)</u>
<u>\$ 2,000</u>	<u>(1,248,713)</u>	<u>(17,079)</u>	<u>(1,265,792)</u>
	139,711	--	139,711
	459,755	--	459,755
	150,678	--	150,678
	4,339	--	4,339
	391,129	--	391,129
	16,464	11,857	28,321
	<u>1,162,076</u>	<u>11,857</u>	<u>1,173,933</u>
	(86,637)	(5,222)	(91,859)
	<u>931,752</u>	<u>369,521</u>	<u>1,301,273</u>
	<u>\$ 845,115</u>	<u>\$ 364,299</u>	<u>\$ 1,209,414</u>

CITY OF ELKHART, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION - Continued

As of and for the year ended June 30, 2020

		<u>Program Receipts</u>
	<u>Disbursements</u>	<u>Charges for Service</u>
		<u>Operating Grants, Contributions, and Restricted Interest</u>
Cash Basis Net Position		
Restricted:		
Expendable:		
Streets		
Urban renewal projects		
Capital projects		
Fire		
Other purposes		
Unrestricted		
Total cash basis net position		

The accompanying notes are an integral part of these statements.

Program Receipts Capital Grants, Contributions, and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Governmental Activities	Business Type Activities	Total
	\$ 82,352	\$ --	\$ 82,352
	312,769	--	312,769
(114,404)		--	(114,404)
363,035		--	363,035
(93,124)		--	(93,124)
<u>294,487</u>	<u>364,299</u>		<u>658,786</u>
<u>\$ 845,115</u>	<u>\$ 364,299</u>		<u>\$ 1,209,414</u>

CITY OF ELKHART, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2020

		Special Revenue	
	General	Local Option Sales Tax	Tax Increment Financing
Receipts:			
Property tax	\$ 124,078	\$ --	\$ --
Tax increment financing	--	--	459,755
Other city tax	7,333	150,678	--
Licenses and permits	91,359	--	--
Use of money and property	4,339	--	--
Intergovernmental	42,958	--	--
Charges for service	12,285	--	--
Miscellaneous	22,878	--	--
Total receipts	<u>305,230</u>	<u>150,678</u>	<u>459,755</u>
Disbursements:			
Operating:			
Public safety	149,330	--	--
Public works	92,577	--	--
Health and social services	1,400	--	--
Culture and recreation	108,191	--	--
Community and economic development	40,247	--	--
General government	125,884	--	--
Debt service	--	--	--
Capital projects	--	--	--
Total disbursements	<u>517,629</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of receipts over (under) disbursements	(212,399)	150,678	459,755
Other financing sources (uses):			
Debt proceeds	--	--	--
Transfers in	55,469	--	15,000
Transfers out	--	(294,779)	(166,278)
Total other financing sources (uses)	<u>55,469</u>	<u>(294,779)</u>	<u>(151,278)</u>
Change in cash balances	(156,930)	(144,101)	308,477
Cash balances beginning of year	<u>814,452</u>	<u>48,580</u>	<u>4,292</u>
Cash balances end of year	<u>\$ 657,522</u>	<u>\$ (95,521)</u>	<u>\$ 312,769</u>

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<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
\$ --	\$ --	\$ 7,975	\$ 132,053
--	--	--	459,755
--	--	325	158,336
--	--	--	91,359
--	--	--	4,339
--	2,000	45,109	90,067
--	--	--	12,285
--	--	170	23,048
<u>--</u>	<u>2,000</u>	<u>53,579</u>	<u>971,242</u>
--	--	--	149,330
--	--	77,245	169,822
--	--	--	1,400
--	--	--	108,191
--	--	--	40,247
--	--	--	125,884
331,057	--	--	331,057
--	523,077	--	523,077
<u>331,057</u>	<u>523,077</u>	<u>77,245</u>	<u>1,449,008</u>
(331,057)	(521,077)	(23,666)	(477,766)
--	391,129	--	391,129
331,057	75,000	--	476,526
--	--	(15,469)	(476,526)
<u>331,057</u>	<u>466,129</u>	<u>(15,469)</u>	<u>391,129</u>
--	(54,948)	(39,135)	(86,637)
--	(59,456)	123,884	931,752
<u>\$ --</u>	<u>\$ (114,404)</u>	<u>\$ 84,749</u>	<u>\$ 845,115</u>

CITY OF ELKHART, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES - Continued
GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2020

	<u>General</u>	<u>Special Revenue</u> <u>Local Option</u> <u>Sales Tax</u>	<u>Tax Increment</u> <u>Financing</u>
Cash Basis Fund Balances			
Restricted for:			
Streets	\$ --	\$ --	\$ --
Urban renewal purpose	--	--	312,769
Capital project	--	--	--
Fire	363,035	--	--
Other purposes	--	(95,521)	--
Unassigned	<u>294,487</u>	<u> --</u>	<u> --</u>
Total cash basis net assets	<u>\$ 657,522</u>	<u>\$ (95,521)</u>	<u>\$ 312,769</u>

The accompanying notes are an integral part of these statements.

<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
\$ --	\$ --	\$ 82,352	\$ 82,352
--	--	--	312,769
--	(114,404)	--	(114,404)
--	--	--	363,035
--	--	2,397	(93,124)
<u>--</u>	<u>--</u>	<u>--</u>	<u>294,487</u>
<u>\$ --</u>	<u>\$(114,404)</u>	<u>\$ 84,749</u>	<u>\$ 845,115</u>

CITY OF ELKHART, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS

As of and for the year ended June 30, 2020

	Enterprise Funds			
	Water	Sewer	Storm Water Nonmajor	Total
Operating receipts:				
Charges for services	\$ 130,621	\$ 167,805	\$ 12,565	\$ 310,991
Total operating receipts	130,621	167,805	12,565	310,991
Operating disbursements:				
Business type activities	125,424	91,286	4,783	221,493
Total operating disbursements	125,424	91,286	4,783	221,493
Excess of operating receipts over operating disbursements	5,197	76,519	7,782	89,498
Non-operating receipts (disbursements):				
Miscellaneous	10,244	1,613	--	11,857
Debt service	(27,124)	(79,453)	--	(106,577)
Net non-operating receipts (disbursements)	(16,880)	(77,840)	--	(94,720)
Excess (deficiency) of receipts over (under) disbursements	(11,683)	(1,321)	7,782	(5,222)
Cash balances beginning of year	146,216	183,449	39,856	369,521
Cash balances end of year	\$ 134,533	\$ 182,128	\$ 47,638	\$ 364,299
Cash Basis Fund Balances				
Unrestricted	\$ 134,533	\$ 182,128	\$ 47,638	\$ 364,299
Total cash basis fund balances	\$ 134,533	\$ 182,128	\$ 47,638	\$ 364,299

The accompanying notes are an integral part of these statements.

CITY OF ELKHART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Elkhart, Iowa is a political subdivision of the State of Iowa located in Polk County. It was first incorporated in 1904 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and storm sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Elkhart has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

B. Basis of Presentation

Government-wide Financial Statement

The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental receipts, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or are imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

CITY OF ELKHART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds and proprietary fund are aggregated and reported as either nonmajor governmental funds or nonmajor enterprise fund.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Local Option Sales Tax Fund is utilized to account for the collection and use of local option sales tax.

The Tax Increment Financing Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities with the exception of those financed through Enterprise Funds.

The City reports the following major proprietary funds:

Enterprise:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

CITY OF ELKHART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Property Taxes and Governmental Cash Basis Fund Balances

The following accounting policies are followed in preparing the financial statements:

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2018 assessed property valuations; is for the tax accrual period July 1, 2019 through June 30, 2020 and reflects tax asking contained in the budget certified to the City Council in March, 2019.

CITY OF ELKHART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2020, disbursements exceeded the amount budgeted in the public safety, culture and recreation, community and economic development, general government, and debt service functions.

NOTE 2 - CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2020 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to ensure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

CITY OF ELKHART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 3 - BONDS PAYABLE

A summary of changes in bonds payable for the year ended June 30, 2020 is as follows:

	<u>Beginning Balances</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balances</u>	<u>Due Within One Year</u>
Governmental activities:					
General Obligation Bonds	\$3,660,000	\$ --	\$ 254,000	\$3,406,000	\$ 308,000
Government activities total	<u>\$3,660,000</u>	<u>\$ --</u>	<u>\$ 254,000</u>	<u>\$3,406,000</u>	<u>\$ 308,000</u>
Business type activities:					
Water Revenue Bonds	\$ 206,000	\$ --	\$ 16,000	\$ 190,000	\$ 16,000
Sewer Revenue Bonds	<u>901,871</u>	<u>391,129</u>	<u>56,000</u>	<u>1,237,000</u>	<u>58,000</u>
Business type activities total	<u>\$1,107,871</u>	<u>\$ 391,129</u>	<u>\$ 72,000</u>	<u>\$1,427,000</u>	<u>\$ 74,000</u>

Annual debt service requirements to maturity for general obligation bonds, and revenue bonds are as follows:

<u>Year Ending June 30,</u>	<u>General Obligation Bonds</u>		<u>Revenue Bonds</u>		<u>Total</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 308,000	\$ 23,654	\$ 74,000	\$ 17,664	\$ 382,000	\$ 41,318
2022	268,000	21,370	76,000	16,580	344,000	37,950
2023	270,000	19,681	77,000	15,452	347,000	35,133
2024	273,000	17,980	79,000	14,315	352,000	32,295
2025	275,000	16,260	82,000	13,133	357,000	29,393
2026-2030	1,142,000	55,843	435,000	46,570	1,577,000	102,413
2031-2035	780,000	26,926	366,000	20,152	1,146,000	47,078
2036-2038	<u>90,000</u>	<u>2,419</u>	<u>238,000</u>	<u>4,191</u>	<u>328,000</u>	<u>6,610</u>
	<u>\$ 3,406,000</u>	<u>\$ 184,133</u>	<u>\$ 1,427,000</u>	<u>\$ 148,057</u>	<u>\$ 4,833,000</u>	<u>\$ 332,190</u>

CITY OF ELKHART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 3 - BONDS PAYABLE - Continued

General Obligation Bonds

On August 5, 2015, the City issued \$500,000 of general obligation corporate purpose bonds with an interest rate of 2.60% per annum. The bonds were issued for the construction of a new sanitary sewer system and water system extensions and improvements. During the year ended June 30, 2020, the City paid \$161,000 of principal and \$7,917 of interest. The bonds mature in fiscal year 2021.

On June 29, 2018, the City issued \$3,793,000 of SRF general obligation annual appropriation sewer improvement bonds with an interest rate of 1.75% per annum, and subsequently reduced to 0.63%. The bonds were issued for the construction of a wastewater treatment system. During the year ended June 30, 2020, the City paid \$93,000 of principal and \$64,819 of interest. The bonds mature in fiscal year 2036.

Revenue Bonds

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$250,000 in water revenue bonds issued in August, 2015. Proceeds from the bonds provided financing for constructing improvements and extensions to the water system utility. The bonds carry an interest rate of 3.60% and are payable solely from water customer net receipts maturing in fiscal year 2030. Annual principal and interest payments on the bonds are expected to require more than 100% of the net receipts. The total principal and interest remaining to be paid on the bonds is \$229,504. For the current year, principal and interest paid and total customer net receipts were \$27,124 and \$5,197, respectively. Existing fund balance is used to meet debt service payments in years where the net receipts are not sufficient.

The provisions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds
- (b) Sufficient transfers shall be made to a water revenue bond sinking account within the Enterprise, Water Fund for the purpose of making the bond principal and interest payments when due.

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,350,000 in water revenue bonds issued in December, 2018. Proceeds from the bonds provided financing for planning, designing, and constructing improvements and extensions to the City's Sanitary Sewer System. The bonds carry an interest rate of 0.75% and are payable solely from sewer customer net receipts maturing in fiscal year 2038. Annual principal and interest payments on the bonds are expected to require more than 100% of the net receipts. The total principal and interest remaining to be paid on the bonds is \$1,345,553. For the current year, principal and interest paid and total customer net receipts were \$79,453 and \$76,519, respectively. Existing fund balance is used to meet debt service payments in years where the net receipts are not sufficient.

CITY OF ELKHART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 3 - BONDS PAYABLE - Continued

The provisions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds
- (b) Sufficient transfers shall be made to a sewer revenue bond sinking account within the Enterprise, Sewer Fund for the purpose of making the bond principal and interest payments when due.

NOTE 4 - PENSION PLAN

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

CITY OF ELKHART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 4 - PENSION PLAN - Continued

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2020, pursuant to the required rate, Regular members contributed 6.29% of covered payroll and the City contributed 9.44% of covered payroll, for a total rate of 15.73%.

The City's contributions to IPERS for the year ended June 30, 2020 were \$11,761.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2020, the City reported a liability of \$67,473 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2019 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2019, the City's proportion was 0.001165%, which was an increase of 0.000120% from its proportion measured as of June 30, 2018.

For the year ended June 30, 2020, the City pension expense, deferred outflows of resources and deferred inflows of resources totaled \$12,412, \$10,604 and \$13,219 respectively.

There were no non-employer contributing entities to IPERS.

CITY OF ELKHART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 4 - PENSION PLAN - Continued

Actuarial Assumptions - The total pension liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Rate of inflation (effective June 30, 2017)	2.60% per annum.
Rates of salary increase (effective June 30, 2017)	3.25% to 16.25% average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 2017)	7.00% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 2017)	3.25% per annum, based on 2.60% inflation and 0.65% real wage inflation.

The actuarial assumptions used in the June 30, 2019 valuation were based on the results of an economic assumption study dated March 24, 2017 and a demographic assumption study dated June 28, 2018.

Mortality rates used in the 2019 valuation were based on the RP-2014 Employee and Healthy Annuitant Tables with MP-2017 generational adjustments.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Domestic equity	22.0%	5.60%
International equity	15.0	6.08
Global smart beta equity	3.0	5.82
Core plus fixed income	27.0	1.71
Public credit	3.5	3.32
Public real assets	7.0	2.81
Cash	1.0	(0.21)
Private equity	11.0	10.13
Private real assets	7.5	4.76
Private credit	3.0	3.01
Total	<u>100%</u>	

CITY OF ELKHART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 4 - PENSION PLAN - Continued

Discount Rate - The discount rate used to measure the total pension liability was 7.00%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.00%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.00%) or 1% higher (8.00%) than the current rate.

	1% Decrease (6.00%)	Discount Rate (7.00%)	1% Increase (8.00%)
City's proportionate share of the net pension liability	\$ 119,811	\$ 67,473	\$ 23,573

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

NOTE 5 - COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and comp time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City does not currently track unused vacation and comp time hours and, therefore, is unable to determine the total compensated absences liability.

NOTE 6 - RISK MANAGEMENT

The City of Elkhart is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees' and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

CITY OF ELKHART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 7 - INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2020 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Memorial Park	\$ 5,020
	Local Option Sales Tax	40,000
	Employee Benefits	6,270
	Emergency	4,179
		<u>55,469</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	164,779
	Tax Increment Financing	166,278
		<u>331,057</u>
Capital Projects	Special Revenue:	
	Local Option Sales Tax	75,000
Special Revenue:	Special Revenue:	
Tax Increment Financing	Local Option Sales Tax	<u>15,000</u>
		<u>\$ 476,526</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

NOTE 8 - SERVICE AGREEMENTS

The City has an agreement with Polk County to obtain police protection for its citizens. The City paid \$13,153 for services during the year ended June 30, 2020, and approved an agreement in the amount of \$13,212 for the year ending June 30, 2021.

CITY OF ELKHART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 9 - OTHER POST EMPLOYMENT BENEFITS (OPEB)

Plan Description: The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. Group insurance benefits are established under Iowa Code Chapter 509A.13. The City currently finances the benefit plan on a pay-as-you-go basis. For the year ended June 30, 2020, the City contributed \$11,382 and plan members eligible for benefits contributed \$4,389 to the plan. At June 30, 2020, no assets have been accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

OPEB Benefits: Individuals who are employed by the City and are eligible to participate in the group health plan are eligible to continue healthcare benefits upon retirement. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees, which results in an implicit rate subsidy.

Retired participants must be age 55 or older at retirement, with the exception of special service participants who must be age 50 with 22 years of services. At June 30, 2020, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	0
Active employees	<u>3</u>
Total	<u><u>3</u></u>

NOTE 10 - DEFICIT BALANCES

The Special Revenue Employee Benefits, Emergency, Local Option Sales Tax Funds and Capital Projects Sewer Lagoon Project Fund had deficit balances of \$300, \$76, \$95,521, and \$325,028 at June 30, 2020, respectively. The deficits will be eliminated upon transfers from other funds.

NOTE 11 - COMMITMENTS

The City has committed funds for the Main Street Improvement project with an estimated cost of \$1,066,000. The project will be financed with the use of debt.

CITY OF ELKHART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2020

NOTE 12 - SUBSEQUENT EVENTS

The City has evaluated all subsequent events through June 22, 2021, the date the financial statements were available to be issued.

In August 2020, the City issued \$3,658,000 of General Obligation Annual Appropriation Sewer Improvement and Refunding Bonds and \$1,353,000 of Sewer Revenue Improvement and Refunding Bonds to advance refund and refinance old debt related to the City's sewer lagoon project. Also in August 2020, the City issued \$450,000 of TIF Revenue debt for the Main Street Improvement Project.

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OTHER INFORMATION

CITY OF ELKHART, IOWA
BUDGETARY COMPARISON SCHEDULE
OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL - ALL GOVERNMENTAL
FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION

Year ended June 30, 2020

	<u>Governmental Funds Actual</u>	<u>Proprietary Funds Actual</u>	<u>Total</u>
Receipts:			
Property tax	\$ 132,053	\$ --	\$ 132,053
Tax increment financing	459,755	--	459,755
Other city tax	158,336	--	158,336
Licenses and permits	91,359	--	91,359
Use of money and property	4,339	--	4,339
Intergovernmental	90,067	--	90,067
Charges for service	12,285	310,991	323,276
Miscellaneous	<u>23,048</u>	<u>11,857</u>	<u>34,905</u>
Total receipts	<u>971,242</u>	<u>322,848</u>	<u>1,294,090</u>
Disbursements:			
Public safety	149,330	--	149,330
Public works	169,822	--	169,822
Health and social services	1,400	--	1,400
Culture and recreation	108,191	--	108,191
Community and economic development	40,247	--	40,247
General government	125,884	--	125,884
Debt service	331,057	--	331,057
Capital projects	523,077	--	523,077
Business type activities	<u>--</u>	<u>328,070</u>	<u>328,070</u>
Total disbursements	<u>1,449,008</u>	<u>328,070</u>	<u>1,777,078</u>
Excess (deficiency) of receipts over (under) disbursements	(477,766)	(5,222)	(482,988)
Other financing sources, net	<u>391,129</u>	<u>--</u>	<u>391,129</u>
Change in fund balances	(86,637)	(5,222)	(91,859)
Balances beginning of year	<u>931,752</u>	<u>369,521</u>	<u>1,301,273</u>
Balances end of year	<u>\$ 845,115</u>	<u>\$ 364,299</u>	<u>\$ 1,209,414</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total Variance
\$ 136,059	\$ 136,059	\$ (4,006)
474,593	474,593	(14,838)
207,734	207,734	(49,398)
70,000	70,000	21,359
6,258	6,258	(1,919)
158,599	158,599	(68,532)
271,042	271,042	52,234
28,700	28,700	6,205
<u>1,352,985</u>	<u>1,352,985</u>	<u>(58,895)</u>
141,339	141,339	(7,991)
97,526	174,526	4,704
1,400	1,400	--
63,668	63,668	(44,523)
36,000	36,000	(4,247)
104,760	104,760	(21,124)
410,777	328,418	(2,639)
--	659,200	136,123
228,228	335,587	7,517
<u>1,083,698</u>	<u>1,844,898</u>	<u>67,820</u>
269,287	(491,913)	8,925
<u>--</u>	<u>653,100</u>	<u>(261,971)</u>
269,287	161,187	(253,046)
949,207	1,284,388	16,885
<u>\$ 1,218,494</u>	<u>\$ 1,445,575</u>	<u>\$ (236,161)</u>

CITY OF ELKHART, IOWA
NOTES TO OTHER INFORMATION -
BUDGETARY REPORTING

June 30, 2020

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted included disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$761,200. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2020, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, community and economic development, general government, and debt service functions.

See accompanying independent auditor's report.

CITY OF ELKHART, IOWA
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE
OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST FISCAL YEAR*

OTHER INFORMATION

	<u>2020</u>
City's proportion of the net pension liability	0.001165%
City's proportionate share of the net pension liability	\$ 67,000
City's covered payroll	\$ 87,000
City's proportionate share of the net pension liability as a percentage of its covered payroll	77.01%
IPERS' net position as a percentage of the total pension liability	85.45%

* In accordance with GASB Statement No. 68, the amounts presented for the fiscal year were determined as of June 30 of the preceding fiscal year.

Note: Amounts are rounded.

See accompanying independent auditor's report.

CITY OF ELKHART, IOWA
SCHEDULE OF CITY CONTRIBUTIONS
IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
LAST FISCAL YEAR
OTHER INFORMATION

	<u>2020</u>
Statutorily required contribution	\$ 11,800
Contributions in relation to the statutorily required contribution	<u>(11,800)</u>
Contribution deficiency (excess)	<u>\$ --</u>
City's covered payroll	\$ 125,000
Contributions as a percentage of covered payroll	9.44%

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditor's report.

CITY OF ELKHART, IOWA
NOTES TO OTHER INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2020

Changes of benefit terms:

There are no significant changes in benefit terms.

Changes of assumptions:

The 2018 valuation implemented the following refinements as a result of a demographic assumption study dated June 28, 2018:

- Changed mortality assumptions to the RP-2014 mortality tables with mortality improvements modeled using Scale MP-2017.
- Adjusted retirement rates.
- Lowered disability rates.
- Adjusted the probability of a vested Regular member electing to receive a deferred benefit.
- Adjusted the merit component of the salary increase assumption.

The 2017 valuation implemented the following refinements as a result of an experience study dated March 24, 2017:

- Decreased the inflation assumption from 3.00% to 2.60%.
- Decreased the assumed rate of interest on member accounts from 3.75% to 3.50% per year.
- Decreased the discount rate from 7.50% to 7.00%.
- Decreased the wage growth assumption from 4.00% to 3.25%.
- Decreased the payroll growth assumption from 4.00% to 3.25%.

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

* * *

See accompanying independent auditor's report.

SUPPLEMENTARY INFORMATION

CITY OF ELKHART, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS

As of and for the year ended June 30, 2020

		Special Revenue	
	Employee Road Use	Employee Benefits	Emergency
Receipts:			
Property tax	\$ --	\$ 4,522	\$ 3,453
Other city tax	--	190	135
Intergovernmental	45,109	--	--
Miscellaneous	--	--	--
Total receipts	<u>45,109</u>	<u>4,712</u>	<u>3,588</u>
Disbursements:			
Operating:			
Public works	<u>77,245</u>	<u>--</u>	<u>--</u>
Total disbursements	<u>77,245</u>	<u>--</u>	<u>--</u>
Excess (deficiency) of receipts over (under) disbursements	(32,136)	4,712	3,588
Other financing uses:			
Transfers out	<u>--</u>	<u>(6,270)</u>	<u>(4,179)</u>
Change in cash balances	(32,136)	(1,558)	(591)
Cash balances beginning of year	<u>114,488</u>	<u>1,258</u>	<u>515</u>
Cash balances end of year	<u>\$ 82,352</u>	<u>\$ (300)</u>	<u>\$ (76)</u>
Cash Basis Fund Balances			
Restricted:			
Streets	\$ 82,352	\$ --	\$ --
Other purposes	<u>--</u>	<u>(300)</u>	<u>(76)</u>
Total cash basis fund balances	<u>\$ 82,352</u>	<u>\$ (300)</u>	<u>\$ (76)</u>

See accompanying independent auditor's report.

<u>Special Revenue</u>		
<u>Memorial Park</u>	<u>Cemetery</u>	<u>Total</u>
\$ --	\$ --	\$ 7,975
--	--	325
--	--	45,109
--	170	170
--	170	53,579
--	--	77,245
--	--	77,245
--	170	(23,666)
(5,020)	--	(15,469)
(5,020)	170	(39,135)
6,452	1,171	123,884
<u>\$ 1,432</u>	<u>\$ 1,341</u>	<u>\$ 84,749</u>
\$ --	\$ --	\$ 82,352
1,432	1,341	2,397
<u>\$ 1,432</u>	<u>\$ 1,341</u>	<u>\$ 84,749</u>

CITY OF ELKHART, IOWA
SCHEDULE OF INDEBTEDNESS
Year ended June 30, 2020

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Bonds:			
Corporate Purpose, Series 2015A	August 5, 2015	2.60%	\$ 500,000
Annual Appropriation Sewer Improvement Bonds, Series 2018A	June 29, 2018	0.63%	3,793,000
Total General Obligation Bonds			
Revenue Bonds:			
Water Revenue Bonds, Series 2015B	August 5, 2015	3.60%	250,000
Sewer Revenue Bonds, Series 2018B	December 7, 2018	0.75%	1,350,000
Total Revenue Bonds			

See accompanying independent auditor's report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>
\$ 203,000	\$ --	\$ 161,000	\$ 42,000	\$ 7,917
<u>3,457,000</u>	<u>--</u>	<u>93,000</u>	<u>3,364,000</u>	<u>64,819</u>
<u>\$3,660,000</u>	<u>\$ --</u>	<u>\$ 254,000</u>	<u>\$ 3,406,000</u>	<u>\$ 72,736</u>
\$ 206,000	\$ --	\$ 16,000	\$ 190,000	\$ 11,124
<u>901,871</u>	<u>391,129</u>	<u>56,000</u>	<u>1,237,000</u>	<u>21,798</u>
<u>\$1,107,871</u>	<u>\$ 391,129</u>	<u>\$ 72,000</u>	<u>\$ 1,427,000</u>	<u>\$ 32,922</u>

CITY OF ELKHART, IOWA
NOTE AND BOND MATURITIES
June 30, 2020

Year ending June 30,	General Obligation Bonds				
	Corporate Purpose, Series 2015A		Annual Appropriation Sewer Improvement Bonds, Series 2018A		
	Issued		Issued		
	August 5, 2015		June 29, 2018		
	Interest Rates	Amount	Interest Rates	Amount	Total
2021	2.60%	\$ 42,000	0.63%	\$ 266,000	\$ 308,000
2022		--	0.63%	268,000	268,000
2023		--	0.63%	270,000	270,000
2024		--	0.63%	273,000	273,000
2025		--	0.63%	275,000	275,000
2026		--	0.63%	278,000	278,000
2027		--	0.63%	280,000	280,000
2028		--	0.63%	282,000	282,000
2029		--	0.63%	150,000	150,000
2030		--	0.63%	152,000	152,000
2031		--	0.63%	153,000	153,000
2032		--	0.63%	155,000	155,000
2033		--	0.63%	156,000	156,000
2034		--	0.63%	157,000	157,000
2035		--	0.63%	159,000	159,000
2036		--	0.63%	90,000	90,000
2037		--		--	--
2038		--		--	--
		<u>\$ 42,000</u>		<u>\$3,364,000</u>	<u>\$3,406,000</u>

See accompanying independent auditor's report.

Revenue Bonds					
Water Revenue Bonds, Series 2015B			Sewer Revenue Bonds, Series 2018B		
Issued August 5, 2015			Issued December 7, 2018		
Interest Rates	Amount		Interest Rates	Amount	Total
3.60%	\$	16,000	0.75%	\$ 58,000	\$ 74,000
3.60%		17,000	0.75%	59,000	76,000
3.60%		17,000	0.75%	60,000	77,000
3.60%		18,000	0.75%	61,000	79,000
3.60%		19,000	0.75%	63,000	82,000
3.60%		19,000	0.75%	64,000	83,000
3.60%		20,000	0.75%	65,000	85,000
3.60%		21,000	0.75%	66,000	87,000
3.60%		21,000	0.75%	68,000	89,000
3.60%		22,000	0.75%	69,000	91,000
		--	0.75%	70,000	70,000
		--	0.75%	72,000	72,000
		--	0.75%	73,000	73,000
		--	0.75%	75,000	75,000
		--	0.75%	76,000	76,000
		--	0.75%	78,000	78,000
		--	0.75%	79,000	79,000
		--	0.75%	81,000	81,000
		<u>\$ 190,000</u>		<u>\$ 1,237,000</u>	<u>\$1,427,000</u>

COMMENTS AND RECOMMENDATIONS

Gronewold, Bell, Kyhnn & Co. P.C.

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DAVID A. GINTHER

Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Elkhart, Iowa, as of and for the year ended June 30, 2020, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 22, 2021. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Elkhart's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Elkhart's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Elkhart's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

To the Honorable Mayor and
Members of the City Council

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Responses that we consider to be significant deficiencies: 20-I-A.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Elkhart's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters which are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part II of the accompanying Schedule of Findings and Responses.

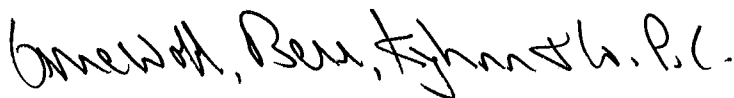
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2020 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Responses to the Findings

The City of Elkhart's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Responses. The City of Elkhart's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Atlantic, Iowa
June 22, 2021

CITY OF ELKHART, IOWA
Schedule of Findings and Responses
Year ended June 30, 2020

PART I: Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES

20-I-A Segregation of Duties:

Criteria: Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition: A limited number of people have the primary responsibility for most of the accounting and financial reporting duties.

Cause: The City has a limited number of employees which does not allow procedures to be established to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect: Inadequate segregation of duties could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation: We recognize that it may not be economically feasible for the City to employ additional personnel for the sole purpose of segregating duties, however, it is our professional responsibility to bring this control deficiency to your attention. We recommend that the Council be aware of the lack of segregation of duties and that they act as an oversight group to the accounting personnel.

Response: The Board is aware of this lack of segregation of duties, but it is not economically feasible for the City to employ additional personnel for this reason. The Council will continue to act as an oversight group.

Conclusion: Response accepted.

CITY OF ELKHART, IOWA
Schedule of Findings and Responses
Year ended June 30, 2020

PART I: Findings Related to the Financial Statements - Continued

20-I-B Compensated Absences:

Criteria: An effective internal control system provides for internal controls related to tracking unused vacation and comp time hours to ensure proper recording of the City's compensated absence liability.

Condition: Unused vacation and comp time balances were not properly tracked during the year and a current balance of each was not able to be identified.

Cause: Policies have not been established and procedures have not been implemented to properly track and account for unused vacation and comp time balances.

Effect: This condition could result in misstated balances for the City's compensated absence liability.

Recommendation: A current and accurate list of unused vacation and comp time balances should be maintained so the City is able to properly account for the total compensated absences liability.

Response: Unused vacation and comp time have begun to be tracked since the end of fiscal year 2020 and will continue to be done in the future.

Conclusion: Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

* * *

CITY OF ELKHART, IOWA

Schedule of Findings and Responses

Year ended June 30, 2020

PART II: Other Findings Related to Required Statutory Reporting

20-II-A Certified Budget: Disbursements during the year ended June 30, 2020 exceeded the amounts budgeted in the public safety, culture and recreation, community and economic development, general government, and debt service functions. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

Recommendation: The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response: The budget will be amended in the future, if applicable.

Conclusion: Response accepted.

20-II-B Questionable Disbursements: During the audit, we did not note any disbursements that did not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

20-II-C Travel Expense: No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

20-II-D Business Transactions: In accordance with Chapter 362.5(3) of the Code of Iowa, no transactions between the City and the City officials and City employees were noted that represented conflicts of interest.

20-II-E Restricted Donor Activity: No transactions were noted between the City, City officials, City employees and restricted donors in compliance with Chapter 68B of the Code of Iowa.

20-II-F Bond Coverage: Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

20-II-G Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.

20-II-H Deposits and Investments: The City has not adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa. In addition, a resolution naming official depositories has not been adopted by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation: The City should adopt a written investment policy which complies with the provisions of Chapter 12B.10B of the Code of Iowa. The City Council, by resolution, should approve amounts sufficient to cover anticipated balances at all approved depositories as required by Chapter 12C.2 of the Code of Iowa.

Response: We will adopt a written investment policy and depository resolution as required.

Conclusion: Response accepted.

CITY OF ELKHART, IOWA
Schedule of Findings and Responses
Year ended June 30, 2020

PART II: Other Findings Related to Required Statutory Reporting - Continued

20-II-I Revenue Bonds: No instances of non-compliance with the revenue bond resolutions were noted.

20-II-J Financial Condition: The following funds had deficit balances at June 30, 2020.

Special Revenue -	Employee Benefits	\$	300
	Emergency		76
	Local Option Sales Tax		95,521
Capital Projects -	Sewer Lagoon Project		325,028

Recommendation: The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial position.

Response: The deficits will be eliminated.

Conclusion: Response accepted.

20-II-K Tax Increment Financing: Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. Urban Renewal Area TIF Indebtedness was certified to the County Auditor before December 1 and no exceptions were noted.

20-II-L Urban Renewal Annual Report: The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

20-II-M Credit Cards: The City has three credit cards to be used by officials and employees for City business. We noted in our testing that supporting documentation for all purchases made was not obtained. In addition, the City has not adopted a formal policy to regulate the use of the credit cards.

Recommendation: The City should adopt a formal written policy regulating the use of its credit cards. The policy, at a minimum, should address who controls the credit cards, who is authorized to use the credit cards and for what purpose, as well as the types of supporting documentation required to support the purchase. All charges must be supported with proper documentation for the purchase made.

Response: We will adopt a formal written credit card policy and will obtain and keep supporting documentation for all purchases made.

Conclusion: Response accepted.

CITY OF ELKHART, IOWA
Schedule of Findings and Responses
Year ended June 30, 2020

PART II: Other Findings Related to Required Statutory Reporting - Continued

20-II-N Payroll: The following were identified:

- (1) There was no indication that timesheets are prepared and approved by appropriate supervisory personnel.
- (2) The City Council approval of wages for certain employees could not be located.
- (3) For selected pay periods, certain employees were being paid in excess of their approved salary.
- (4) Certain employee's W-4s could not be located.

Recommendation: Timesheets should be prepared by all employees and approved by appropriate supervisory personnel. The City Council should approve pay rates for City employees at the time of hiring and when raises occur, and all payroll should be reviewed by appropriate supervisory personnel each period to ensure the correct wages are being paid. Wage increases should be documented in dollar amounts, not in percent of increase. All employees should fill out required employment forms, such as W-4s, at time of hiring and when any changes are made to these forms by the employee.

Response: Controls will be implemented to ensure pay rates are properly authorized, timesheets are completed and reviewed by appropriate personnel, and a review of payroll will be done to ensure that the actual payroll agrees to the approved rates.

Conclusion: Response accepted.

20-II-O Unclaimed Property: Chapter 556.11 of the Code of Iowa requires all cities to report and remit outstanding obligations, including checks, trusts and bonds held for more than two years, to the Office of Treasurer of State annually. The City did not remit all outstanding obligations held for more than two years to the Office of Treasurer of State annually.

Recommendation: Outstanding obligations should be reviewed annually and amounts over two years old should be remitted to the Office of Treasurer of State annually, as required.

Response: The City will review all outstanding obligations and amounts over two years should be remitted to the Office of Treasurer of State annually.

Conclusion: Response accepted.

* * *